City of Santa Fe, New Mexico

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July 1, 2002

TO THE HONORABLE MAYOR, CITYCOUNCIL, AND CITIZENS OF SANTA FE:

I am pleased to submit the Fiscal Year 02/03 Budget for the city of Santa Fe. This budget was based on guarded assumptions of economic conditions and included one-time transfers into the general fund. Despite uncertainty, the budget maintains all basic services including the personnel, operating costs and equipment needs required to adequately support the current programs for public safety, recreational programs, and maintenance of infrastructure, community services, and administration.

The primary function of city government in Santa Fe is to provide quality customer service to its citizens in a multitude of diverse areas. The city recognizes that services should be provided as efficiently and economically as possible given available resources. In addition, the needs of the community continue to be addressed particularly as they affect children, senior citizens and lower income families. The limited availability of housing in price ranges that working families can afford is another important concern, as the median cost of a home in Santa Fe exceeds the national average.

In total, the city assists in funding 19 human services organizations and 36 children and youth programs, including health education and life skills training, self-help groups, clinic for persons with HIV, adult day care, drug therapy, tutoring, dispute resolution, child care, therapy groups for children of substance abusing parents, as well as funding assistance for a youth shelter, rape crisis center, battered women's shelter, children counseling programs, mental health programs, hot meal program, rental and utility assistance and other counseling programs. The city also continues to fund a number of after school and summer youth recreational programs.

In the area of economic development, $218,490 was budgeted for firms involved in local economic development; $82,400 for the development of a new business incubator; and $46,350 for a youth apprenticeship program. In total, economic development initiatives amounted to $347,240. This funding had been primarily provided from the sale of parcels in an area deemed an industrial park, which has now been fully sold. In light of this, a ¾% increment of the city's General Fund state-shared gross receipts tax was allocated to economic development. This amounts to $231,553 In FY 02/03, an increase from the ½% allocated in the prior fiscal year.

The city is continuing its programs to increase the availability of affordable housing with $557,273 from the General Fund allocated to various housing services to assist families in buying homes.

City departments were required to review and evaluate the costs and the benefits of current programs, the effectiveness of their personnel utilization, and needs and requests from the community. Many difficult decisions were required of the City Manager and City Council in evaluating department requests and programs and in allocating available resources. Included in this effort were decisions to delete or not fund 32 vacant positions in the General Fund. We are proud of the efforts of all those involved in continuing to provide quality services to the citizens of Santa Fe while striving to become more efficient and effective.

BUDGET OVERVIEW

The city's General Operating Fund pays for the cost of running the day-to-day business of the city. Revenues are derived primarily from local and state-shared taxes, fees and services, licenses and permits, and a variety of other revenues including grants, interest income, and inter-fund transfers. Services are provided by eight major city departments.

REVENUE

Revenue projections were formulated based on historical information and the professional judgment and analysis of the Finance Department staff. Economic information related to state-shared revenues was obtained from the State Department of Taxation and Revenue. Other economic and financial information is solicited from the State of New Mexico Department of Finance and Administration, Santa Fe County, the University of New Mexico Bureau of Business and Economic Research and various national, state and local publications and reports.

The General Operating Fund FY 02/03 *budgeted revenue* is based on total projected revenues of $56,217,147. Compared to the *actual revenue* in FY 01/02 of $55,422,741, the projected growth is 1.4%, an increase of $794,406. After discounting one-time revenue supplements in the FY 02/03 budget, the adjusted net revenue reflects a decrease of $307,594, approximately -.6%.

The following assumptions materially affected the formulation of the General Operating revenue budget:

1. Gross receipts tax revenues had been budgeted at close to a 3.5% decrease from the prior year budget, a decrease of $1,585,354. The city continues to experience fluctuating monthly gross receipts tax revenues. The projection for FY 02/03 resulted in a 0.99% decrease from actuals for FY 01/02.

   Historic records and trends for gross receipts (backing out tax increment increases) are also reviewed, which are as follows:

Fiscal Year 97/98	+6.52%
Fiscal Year 98/99	+7.75%
Fiscal Year 99/00	+6.04%
Fiscal Year 00/01	+2.62%
Fiscal Year 01/02	+2.55%

   After three relatively high growth years, starting in December 2000 (activity for October 2000), the city saw a significantly lower growth level.

2. The ¼% municipal gross receipts tax increment was approved beginning in 1992, to fund the transit system with 2/3 of the balance to go to the General Fund to make up a lost increment of gross receipts tax that the state retained and with 1/3 of the balance to fund Quality of Life programs and projects. The amount of funding to General Fund was reduced by $128,047 to $1,395,507.

   The ¼% municipal gross receipts tax increment allocation to transit increased slightly both dollar-wise and percentage-wise. Funding for the fixed route transit operations remained level at $4,160,313 (exclusive of encumbrances) plus a $250,000 match for the federal grant and an increase to $832,931 (from original budget of $699,543) for the Santa Fe Ride program for a total of $5,243,244.

3. Construction has held steady; however, it is acknowledged that it is a cyclical industry and highly dependent upon interest rates.

EXPENDITURES

In preparing this budget, there were a number of issues and concerns. Key goals were established, as follows:

1. Balance the General Fund matching recurring revenues projected and recurring expenditures, providing for adequate budget for current operations. For the most part, this was achieved. In light of the needs and requirements for various expenditures, this essentially brought operations to a level of the current base budget, with increases (pay packages) offset by reductions (positions). In order to have the reduced revenues cover current base, some one-time transfers to the General Fund were required. Maintain cash reserves in the General Fund at 10% of expenditures.

2. Maintain key programs, including transit, affordable housing and summer recreation program. Fund Children and Youth programs (3% of state shared gross receipts tax), and Human Services programs (2% of state shared gross receipts tax), and provide the increase from ½% of state shared gross receipts tax to ¾% of state shared gross receipts tax for economic development.

3. Maintain a level of capital outlay replacement in the base General Fund, which was limited by available revenue.

4. Evaluate organizational structures, operations, and technologies to increase efficiencies and reduce costs.

Despite limited resources, most of these goals were met. A number of worthy programs could have been justifiably increased; however, funding was not available.

General Fund Programs

The General Fund is balanced; however, it continues to be stretched to maintain current programs. For a number of programs, funding has remained level for several years. No expansion programs or staffing were recommended in the General Fund other than the additional school guards, of which the public school district will pay half the cost.

In order to balance the General Fund, $9.3 million of base requests and $900,000 of expansion requests were not recommended for funding. To balance the budget 10 positions were deleted; 22 positions were not funded and will be left vacant until revenues improve; and 7 positions were moved to other sources of funding. A vacancy credit of 4.5% was again applied up front in the amount of $1,499,907. Although these vacancies generally occur without significant impact, departments must exercise caution in filling positions as they become vacant.

After discounting one-time, non-recurring expenditures and encumbrances of $867,629 contained in the FY 01/02 budget, the expenditure budget is about .3% less than the Fiscal Year 01/02 appropriation. The impact of the pay plan was essentially absorbed within the FY 02/03 baseline.

Employee Pay Plan

The budget incorporates the three union contracts negotiated during the past fiscal year as well as provision for non-union pay adjustments.

The non-union pay plan was approved including an increase of $.77/hour base rate adjustment in July 2002. This represented an average increase of 3.45% in wages and benefits.

The American Federation of State, County and Municipal Employees contract was approved with provision for a $.77/hour increase in July 2002. The average percentage increase for AFSCME employees was 5.6% in wages and benefits. A $500 lump sum payment will be made to each member in December 2002.

The firefighters contract was approved with an average increase of 7.35% in wages and benefits. This includes a 2.5% COLA and a 1.5% base rate adjustment in July 2002. The promotions each year of 10% (for firefighters II and III), incentive pays, and annual 1% step increases will continue.

For the police union, the 10% annual promotions (for police officers II, III, IV and detectives II), the 1.0% or 1.5% step increases and certain incentives will continue. The base rate adjustment was 4.0% for sworn members and 4.5% for non-sworn members. The average increase was 7.1% in base wages and benefits.

Capital Outlay

For FY 02/03 the only equipment approved was $231,000 for police, fire, and other department mobile and hand-held radio replacement and related equipment; $14,000 for the replacement of the payroll check signer/burster in the Finance Department; SWAT vests for the Police Department ($5,000); and fire equipment (defibrillator and rescue equipment for $15,281).

The city is continuing its program to provide video cameras in all police units. Due to limited capital outlay resources in the General Fund, 8 police vehicles, 34 video cameras and 1 SWAT vest were funded from the 1/16% Police GRT Fund.

Human Services Providers

For FY 02/03, the city of Santa Fe continued its commitment to support the various human services agencies by appropriating $617,474 from the General Operating Fund which represents a 2% allotment of the state-shared gross receipts tax revenue projection (with some carryover from the prior year).

Children and Youth Activities

For FY 02/03, the City Council appropriated $973,061 for the Children and Youth Activities Program, which represents the allotment of 3% of the state-shared gross receipts tax revenue projection (with some carryover from the prior year).

In other fund programs, the following appropriations were approved:

Santa Fe Trails Bus System

The City Council recommended funding in the amount of $5,243,244 for the transit system, grant matching, and Santa Fe Ride. This included an U.S. Department of Transportation grant providing $403,413 for FY 02/03 operations.

Solid Waste Management

The Solid Waste Enterprise Fund operations revenues and expenses are balanced. Current revenues are not at a level to provide for new equipment or equipment replacement; however, balances in a gross receipts tax fund have been used for some replacement equipment. The revenue includes a $200,000 rebate from Santa Fe Solid Waste Management Agency. Areas reviewed for cost savings include not extending the recycling contract and providing those services in-house and automated collection routes. A 4.63% rate increase is under review. In the past, revenues have not always been sufficient to cover the budget, but cash reserves have been available to cover the deficits.

Water Operations Enterprise Fund

For the second year, the budget reflects an entirely city-run operation that had previously been managed by a private contractor. City employees fill all positions. Meter reading operations were brought in-house as of February 2002. The meter-reading crews also serve as field inspectors and have added a number of meters to the billing system. Intense efforts to collect past accounts receivables have resulted in a significant infusion of revenue to settle past-due and unbilled accounts.

As the city has operated the water division, a number of deficiencies and needs were found in the operational side and the following expansion positions and associated costs were funded in this budget:

Operations Manager	$ 72,220
2 Seasonal Compliance Specialists	38,953
Used Vehicle/Computer/Misc.	8,110
2 Water System Apprentices	73,244
1 Equipment Operator	44,272
3 Apprentice Pipe fitters	109,866
1 One-Year Term Line Locator	38,962
1 Equipment Service Technician	31,477
	$417,104

The budget is balanced for current operations, and a plan has been put in place to start funding reserve funds recommended by the bond ordinance and fiscal management. The rate covenant requires revenue to be in excess of operations and maintenance and 125% of the debt service, which was met for FY 01/02 after a significant rate increase. At this point, projects are being adequately funded from the bond proceeds from the 2001 CIP bond issue.

Drought conditions in the southwest continue to affect water supply, and a number of conservation surcharges are applicable at various stages of projected water supply shortfalls. Projects are in the planning phase to increase the water supply with funding requirements of up to $100 million.

Wastewater Operations

The current phase of plant improvement projects are nearing completion, funded in the amount of $25,000,000 from the 1/16% municipal gross receipts tax in 1987. The additional funding required for future projects was directed by the City Council to come from the city's future CIP bonds rather than any rate increases. Although wastewater operations are self-supporting, a source of funding for the next phase of major capital improvements has yet to be identified.

Santa Fe Convention & Visitors Bureau (SFCVB)/Lodgers' Tax

The city's tourism advertising contract is budgeted at $625,000. An additional $300,000 has been granted to support the Lensic, Santa Fe's Performing Arts Center in exchange for marketing support. The programs funded to some degree from Lodgers' Tax are the Sweeney Convention Center, Convention and Visitors Bureau, transit routes in the downtown/museum areas, overtime for police, fire, and sanitation services for special events, and administration of the tax.

An increment of the tax was enacted as of May 2000, increasing the tax from 4% to 5%, the maximum currently allowed by the state. The additional increment is dedicated to a new convention center or major improvement to the current facility. The bonding capacity of this additional increment is about $13 million. The funds accumulate in a segregated fund until a determination is made concerning the convention center's future. The mayor has appointed a task force made up from diverse segments of the community to bring forward recommendations for this project based on the preliminary feasibility plan and design options.

New Recreation Facilities

The Municipal Recreation Center (MRC) composed of an 18-hole and 9-hole golf courses, playing fields and trails opened July 1998. The Genoveva Chavez Community Center (GCCC) composed of an ice skating rink, swimming pool, exercise facilities, gymnasium, and racquet ball courts opened March 2000. The MRC is intended to be self-supporting through user fees to cover operations, maintenance and its associated debt service. Although consultant projections provided data to support this, the facility revenues have come in slower than anticipated and annual subsidies have been required to provide funding to supplement the debt service for the playing fields. Major reductions in operating costs were initiated in FY 00/01 to balance the fund. An aggressive marketing plan was also funded. The GCCC was established to be operated with user revenues and a 1/16% gross receipts tax increment to cover its operations and maintenance with start-up costs subsidized. In its first year of operation, the user revenues and the tax subsidy allowed it to be self-supporting; the FY 02/03 budget is also balanced.

ECONOMIC FORECAST

U.S. Economy

Economic data continue to provide evidence of a recovery in progress that is recovering slower than originally projected. Real Gross Domestic Product increased a robust 5.6% in the first quarter of 2002, although a large portion of the gain was for inventory replenishment. The Federal Reserve reported in May that industrial production rose 0.4% in April, its fourth consecutive monthly increase. Manufacturing output has risen every month since the beginning of 2002. Capacity utilization in manufacturing is rising, although it is still low compared to its level in the 1990s. The growth in manufacturing continued and even gained momentum during May 2002.

There are still questions, though, as to whether final demand will be sufficient to sustain the recovery. Households almost single-handedly kept the economy moving during much of 2001. The recovery is now getting an additional boost from federal government military expenditures and from the signs of a recovery in global trade.

One area where the recovery has yet to have a significant impact is employment. The unemployment rate fell to 5.8% in May, down from 6.0% in April, but the small decrease in both the unemployment rate and the number unemployed is unlikely to change expectations that unemployment may rise further over the next few months.

On the positive side, the federal government has taken a number of steps to enhance economic growth. The Federal Reserve reduced the target for short-term interest rates several times during the course of 2001and 2002. Rates are at their lowest in nearly 40 years. This should encourage business and consumer spending on durable items, particularly housing. The U.S. government adopted a series of tax cuts and spending increases earlier in 2001 that should stimulate the economy. Inflation remains moderate with the consumer price index increasing a modest 1.6% in May 2002.

New Mexico Economy

The New Mexico economy was neither gaining nor losing ground as it began 2002. Nonagricultural employment growth reached 0.9% in the first quarter of 2002, the same as in the final quarter of 2001. Weakness was evident throughout the economy, as only two major sectors, services and government, exhibited employment gains compared to a year ago. New Mexico employment growth, however, was large enough to rank fifth among the states, and was substantially above the country as a whole, which experienced a first quarter decline of 0.9%. The seasonally adjusted unemployment rate was 6.1% during the first quarter of 2002, a half-point above the national rate of 5.6%.

Construction employment had been on the rise for the past two years, driven to a significant degree by a strong housing market, a major capital expansion at Rio Rancho's Intel plant, and a complete renovation of the Big-I interstate highway intersection in Albuquerque. Expansion in construction halted in the first quarter of 2002, and construction employment actually fell about 7% between May 2001 and May 2002. This is primarily due to completion of the Intel expansion and the Big-I project in early 2002. Housing construction remains strong.

Santa Fe Economy

The Santa Fe metropolitan statistical area (MSA), as defined by Santa Fe and Los Alamos counties, is second in economic concentration to Albuquerque and third after Albuquerque and Las Cruces demographically in the state. New retail development continues in the Albuquerque and Santa Fe MSAs. As noted earlier in this memorandum, Santa Fe's unemployment has been significantly less than the state average.

The trend in gross receipts tax revenues suggests that this year's growth may be stronger than the past year's growth. The final gross receipts tax report for FY 01/02 indicates that gross receipts collected grew by 2.50% over that received in FY 00/01. The gradual recovery from recession should result in a somewhat stronger performance in FY 02/03.

Aggressive steps to manage vacant positions and stringent controls over spending have allowed the municipal government to maintain essential services and support new program priorities despite curtailment of growth in gross receipts revenue. Expansion of current programs or new program starts must be supported by renewed growth in available resources created during economic recovery.

The economic forecast information on the U.S., New Mexico and Santa Fe economies were extracted from material from the summer 2002 edition of the University of New Mexico's "The FOR-UNM Bulletin: A Quarterly Economic Forecast of the New Mexico Economy" and the New Mexico Department of Economic Development's "2002 Statistical Abstract and Business Incentives".

Respectfully submitted,

Jim Romero
City Manager